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EX PARTE

March 13, 1997

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W. - Room 222
Washington, DC 20554

RE: Ex Parte Notice - CC Docket No. 96-45

Dear Mr. Caton;

On March 13, 1997, Porter Childers representing the United States Telephone Association (USTA) met with Ms. Kathleen Levitz and Mr. Tim Peterson of the Federal Communications Commission's (FCC) Common Carrier Bureau, to discuss the estimated high cost support for rural carriers based on the Joint Board plan in its Recommended Decision of November 8, 1996 and the LEC Joint Association Transition Plan filed on February 14, 1997.

The attached material was used as part of our discussion.

In accordance with Section 1.1206(a)(1) of the Commission's rules, two copies of this notice are being submitted to the Secretary of the FCC today. Please include it in the public record of this proceeding.

Respectfully submitted,

Porter E. Childers

Porter E. Childers
Executive Director
Legal and Regulatory Affairs

Attachment

cc: K. Levitz
P. Peterson

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ESTIMATING HIGH COST SUPPORT FOR RURAL CARRIERS

The United States Telephone Association (USTA) has estimated the total amount of high cost support for rural carriers for both the Joint Board plan as contained in its Recommended Decision[1] and the LEC Joint Association Transition Plan[2] for the first three years of the Joint Board's proposed transition period beginning January 1, 1998. The estimates for high cost support were developed for the three current high cost support programs: high cost assistance, DEM weighting benefits and Long Term Support benefits.

I. JOINT BOARD PLAN

A. High Cost Assistance

The methodology and assumptions used to calculate the estimated high cost assistance support for rural carriers are as follows:

1). Rural carrier/study areas were determined based on the number of universal service loops as of December 31, 1995.[3] The carriers/study areas with less than 100,000 universal service loops were classified as rural for purposes of this estimate. This determination of rural does not capture all of the carriers which may be rural under the definition of rural telephone company contained in the Act.[4]

2). The frozen level of high cost assistance for rural carriers/study areas was developed by dividing the projected capped high cost assistance payments for 1997[5] by the number of rural carrier/study area universal service loops at year end 1995. The 1997 high cost assistance payments were based on 1995 embedded costs and 1995 loops.[6]

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[1] *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Recommended Decision*, released November 8, 1997 at ¶ 289. [*Recommended Decision*].

[2] USTA *Ex Parte* Notice, CC Docket No. 96-45, February 14, 1997.

[3] National Exchange Carrier Association (NECA) Universal Service Fund Data Collection, CC Docket No. 80-286, filed October 1, 1996. [NECA Universal Service Fund Data]. This includes all universal service loops.

[4] Section 3(37).

[5] NECA Universal Service Fund Data.

[6] *Recommended Decision* at ¶ 291.

3). The individual rural carrier's universal service loops for the years 1998, 1999 and 2000 were developed by using a growth rate that was developed from a time trend analysis of historical data (1988 through 1995). The growth rate used was 4.63 percent.

4). The estimated high cost assistance amount was developed for rural carriers/study areas by multiplying the rural carrier/study area frozen high cost assistance per loop (as determined in step A.2 above) for the years 1998, 1999 and 2000 by the forecasted number of loops (as developed in step A.3 above).

B. DEM Weighting Benefits

1). The frozen level of DEM weighting benefits for rural carriers/study areas were developed by projecting the DEM weighting benefits received in 1993.[7] The 1993 DEM weighting benefits for rural carrier/study areas were projected to 1996 levels using the historical growth rate in traffic sensitive revenue requirement from rural carriers/study areas.[8] The growth rate used was 6.80 percent.[9]

2). The frozen level of DEM weighting benefits for rural carriers/study areas were developed by dividing the projected DEM weighting benefits for 1996 by the projected number of rural carriers/study areas universal service loops at year end 1996. The 1996 universal service loops were developed by using a growth rate that was developed from a time trend analysis of data (1988 through 1995). The growth rate used was 4.63 percent.

3). The estimated DEM weighting benefits were developed for rural carriers/study areas by multiplying the frozen DEM weighting benefits per universal service loop (as developed in step B.2 above) for the years 1998, 1999 and 2000 by the forecasted universal service loops (as developed in step A.3 above).

C. Long Term Support Benefits

1). The frozen level of Long Term Support benefits for rural carriers/study areas were developed by dividing the projected benefits received during 1996 as calculated by NECA by the end of year 1996 universal service loops (as developed in step B.2 above).[10]

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[7]Federal-State Joint Board, Monitoring Report, CC Docket No. 87-339, May 1996 at Table 3.16. [Monitoring Report].

[8]NECA Transmittal.

[9]*Recommended Decision* at ¶ 292.

[10]*Id.* at ¶ 293.

2). The estimated Long Term Support benefits were developed for each rural carrier/study area by multiplying the frozen long term support benefit per loop (as developed in step C.1 above) for the years 1998, 1999 and 2000 by the forecasted loops (as developed in step A.3 above).

II. LEC JOINT ASSOCIATION TRANSITION PLAN

A. High Cost Assistance

The methodology and assumptions used to calculate the estimated high cost assistance support for rural carriers are as follows:

1). Rural carriers/study areas were determined based on the number of universal service loops as of December 31, 1995.[11] The carriers/study areas with less than 100,000 universal service loops were classified as rural for purposes of this estimate. This determination of rural does not capture all of the carriers which may be rural under the definition of rural telephone company contained in the Act.[12]

2). The LEC average cost per loop was developed by projecting the 1995 nationwide average cost per loop ($248.43) using the projected growth of the Gross Domestic Product Price Index (GDPPI) for the years 1998, 1999 and 2000. The projected cost per loop used was $267.93 for 1998, $274.22 for 1999 and $281.08 for 2000.

3). The individual rural carrier/study area projected cost per loop for the years 1998, 1999 and 2000 was developed from historical data (1988 through 1995) for rural carriers/study areas.[13] The growth rate used was 0.34 percent.

B. DEM Weighting Benefits

1). The DEM weighting benefits for the years 1998, 1999 and 2000 were developed using an overall historical growth rate of 6.80 percent from the base year of 1993 of the revenue requirement for all rural carriers/study areas and applied to the 1993 DEM weighting benefits of the rural carriers/study areas.[14]

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[11]NECA Universal Service Fund Data.

[12]Section 3(37).

[13]NECA Transmittal.

[14]Monitoring Report.

C. Long Term Support Benefits

1). The Long Term Support benefits for the years 1998, 1999 and 2000 for rural carriers/study areas were developed using the historical growth rate of 6.3 percent from the base year of 1996 of the revenue requirements for rural carriers/study areas and applied to the 1996 Long Term Support benefits as calculated by NECA.[15]

[15]NECA Transmittal.

UNIVERSAL SERVICE
BASED ON JOINT BOARD RECOMMENDED DECISION
RURAL CARRIERS -- HIGH COST SUPPORT

	1998	1999	2000
USF	608,900,000	637,800,000	668,000,000
DEM	421,800,000	441,800,000	462,700,000
LTS	366,300,000	383,700,000	401,900,000
TOTAL	1,397,000,000	1,463,300,000	1,532,600,000

UNIVERSAL SERVICE
BASED ON
LEC JOINT ASSOCIATION TRANSITION PLAN
RURAL CARRIERS - HIGH COST SUPPORT

	1998	1999	2000
USF	502,700,000	481,000,000	458,000,000
DEM	448,000,000	478,500,000	511,000,000
LTS	392,600,000	417,300,000	443,600,000
TOTAL	1,343,300,000	1,376,800,000	1,412,600,000

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UNITED STATES TELEPHONE ASSOCIATION

EX PARTE

February 14, 1997

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W. - Room 222
Washington, DC 20554

RE: Ex Parte Notice - CC Docket No. 96-45

Dear Mr. Caton:

On February 13, 1997, Paul Violette, Mark Barr, Gene South, David Cohen, John Hunter, Jim Lowell and Porter Childers representing the United States Telephone Association (USTA) and Margot Humphrey, Liza Zaina and David Cosson representing the Rural Telephone Coalition (RTC) met with Emily Hoffnar and David Krech of the Federal Communications Commission's (FCC) Common Carrier Bureau and Paul Pederson, Charles Bolle and Lee Palagyi of the State staff on the Universal Service Joint Board to discuss issues affecting rural telephone companies in the Universal Service proceeding .

The attached document was used during the discussion.

Due to late adjournment of the meeting and in accordance with Section 1.1206(a)(1) of the Commission's rules, two copies of this notice are being submitted to the Secretary of the FCC today, the next business day. Please include it in the public record of this proceeding.

Respectfully submitted,

Porter E. Childers

Porter E. Childers
Executive Director
Legal and Regulatory Affair

Attachment

cc: Emily Hoffnar, David Krech, Paul Pederson, Charle Bolle, Lee Palagyi

LEC ASSOCIATIONS UNIVERSAL SERVICE TRANSITION PLAN

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FEDERAL-STATE JOINT BOARD RECOMMENDED DECISION ON UNIVERSAL SERVICE

CC DOCKET NO. 96-45

OVERVIEW

* This plan, for rural telephone companies, is a proposed substitute for the recommendation of the Joint Board that the current USF, DEM weighting and long term support be frozen at 1996 per line amounts and transferred to the new Universal Service Fund (USF) where they would be funded by contributions from all interstate carriers.

* The problem with the Joint Board's recommendation of a per line freeze is that it would result in:

  * LECs not recovering their interstate costs defined in Part 36, including the additional expense adjustment, carrier common line, and traffic sensitive costs which were incurred in reliance upon the rules in effect when the investments were prudently made.

  * LECs will be unable to make substantial investment in infrastructure development where that investment would increase on a per line basis, thus thwarting the objectives of the 1996 Telecommunications Act.

THE PROPOSED PLAN

* The LEC Associations propose a substitute transition mechanism which would recognize the interest of regulators in controlling the size of the new universal service fund, while also recognizing that substantial investments are required in rural areas to assure that they are not bypassed by the information age. The key elements of this proposal are:

USF The 1995 nationwide average loop cost would be adjusted annually to reflect inflation by application of the Gross Domestic Product Price Index (GDPPI). This would establish an easily administered control and eliminate the need for annual submission of data for calculation of the nationwide average.

USF support would be applied to all lines.

LECs would annually calculate their additional interstate expense allocation on the basis of their loop cost in excess of the indexed nationwide average loop cost.

THE PROPOSED PLAN (Cont.)

DEM The 1995 (96?) interstate allocation factor based on weighted DEM would be frozen for each study area. This allocation factor would be applied annually to the traffic sensitive investment and expenses. All interstate allocated amounts in excess of unweighted DEM would be recovered through the new USF.

The interstate allocation based on unweighted DEM would continue to be recovered through interstate access charges, which would be considerably lower than currently.

LTS The level of Long Term Support would be frozen for the transition period at the percentage that LTS represented of the total common line pool in 1996. This ratio would be applied to the annual common line revenue requirement calculated by NECA. The LTS amounts would be transferred to the new USF and recovered through contributions from all interstate carriers.

ESTIMATED 1998 FUNDING REQUIREMENTS

* The LEC associations estimate that the 1998 funding requirements for new universal service support for rural telephone companies would be approximately as shown below. Because there is no cumulative data on the level of investments currently made but not yet reflected in settlements, as well as investments to be made during the transition, these figures, while reasonable, are necessarily not precise.

	Amount, $ M
USF	**465**
DEM WEIGHTING	**220**
LONG TERM SUPPORT	**345**
TOTAL	**1,030**

ADVANTAGES OF THE PLAN

* The LEC associations plan would address the legitimate concerns of the Joint Board while more affectively meeting the objective to "ensure that the goals of affordable service and access to advanced services are met by means that enhance, rather than distort, competition."

* Subscribers will benefit from the continued investment of rural telephone companies in the infrastructure necessary to provide their customers with access to advanced communications and information services.

* LECs will be able to recover their prudently invested costs properly assigned to the interstate jurisdiction.

* Rural business customers will not experience severe rate shock and the resulting incentive to relocate to urban areas.

[THE FOLLOWING VIEWGRAPHS ARE FOR BACKGROUND USE AS NECESSARY]

UNIVERSAL SERVICE FUND

Present Rules

Separations rules currently assign 25% of LECs' loop costs to interstate. LECs whose embedded loop costs exceed 115% of the nationwide average loop cost can allocate additional costs to interstate, as follows:

Study Areas of 200,000 loops or less:	65% of costs between 115% and 150% for each loop, and 75% of costs over 150% for each loop
Study Areas of over 200,000 loops:	10% of costs between 115% and 160% for each loop 30% of costs between 160% and 200% for each loop 60% of costs between 200% and 250% for each loop, and 75% of costs over 250% for each loop.

UNIVERSAL SERVICE FUND (Cont.)

These additional interstate allocations are funded entirely by the IXCs and paid directly to LECs. This amount is now capped at the total fund size of the previous year times the prior calendar year's line growth.

Joint Board Recommendation

The Joint Board would replace this by freezing the amount paid to a LEC in 1997 based on its 1995 embedded costs divided by the number of the carrier's loops as of 12/31/95. This frozen per line amount would then be multiplied by the number of loops for 12/31/96 to determine the payments for 1998.

DEM WEIGHTING

Present Rules

LEC study areas below 50,000 access lines allocate local switching equipment investment to interstate based on relative dial equipment minutes of use, times a weighting factor based on study area access lines, as follows:

0 - 10,000 access lines - 3.0
10,001 - 20,000 access lines - - - - - - - - - - - - - - - - 2.5
20,001 - 50,000 access lines - - - - - - - - - - - - - - - - 2.0

Costs which would otherwise be allocated to intrastate are shifted to interstate and recovered as an implicit subsidy through interstate rates. The allocation factor is capped at 85% of local switching costs which can be assigned to interstate.

DEM WEIGHTING (Cont.)

Joint Board Recommendation

The Joint Board would transfer this explicit support from access charges to the USF by determining the additional revenues to be collected by each LEC in 1996 above what would have been collected without DEM weighting and dividing that by the year-end 1996 loops to obtain a frozen per-line amount. The 1996 per loop cost would determine 1998 payments. Local switching rates would be correspondingly reduced.

LONG TERM SUPPORT

Present Rules

NECA annually projects the common line revenue requirement for incumbent LECs participating in its common line pool. The total amount of long term support (LTS) needed is then calculated by subtracting the amount pool participants will receive in SLCs and CCL charge revenue as well as pay telephone costs and revenues. Pool members draw from the fund annually based on their reported costs (except for average schedule participants). LTS is funded by non-pooling incumbent LECs who then reflect the contributions in their CCL charges

Joint Board Recommendation

The Joint Board would freeze each pool member's percentage of total LTS contributions from the non-pooling LECs. Then, LTS payments to pool members in 1996 divided by the year-end loops would give a frozen per-line amount. 1996 loops times this value would then serve as a basis for 1998 payments. 1999 payments would be derived from year-end 1997 loops, and so on.

SUPPORTING POLICY CONSIDERATIONS

The Joint Board, quoting the Telecommunications Act of 1996, seeks to create an effective universal service support system which will "ensure that the goals of affordable service and access to advanced services are met by means that enhance, rather than distort, competition." The Universal Service Transition Plan for Rural LECs described here will achieve that goal more effectively than the measures offered for rural companies in the Joint Board's Recommended Decision. Specifically:

- Failure to apply universal service support to all lines would cause rate shock to rural business customers, bring further pressure to raise residential rates to prevent loss of business customers to competitors, and thereby stifle essental rural economic development. The rural transition plan presented here corrects this error and will help prevent these results from occurring.

- Arbitrarily freezing USF, DEM and LTS on a per-line basis is unjustifiable on any grounds and would serve to discourage rural LECs from investing in their networks at a time when accelerating these investments is critical to providing expected levels of service. This is because they could not recover all their costs. The rural transition plan presented here corrects this.

SUPPORTING POLICY CONSIDERATIONS (Cont.)

- If the Joint Board Recommended Decision is adopted in FCC rules, rural LECs will be forced to approach the Commission on an individual basis if they need to undertake investment to their networks beyond what they would be able to recover through the frozen, per line approach recommended by the Joint Board. The rural transition plan presented here will alleviate this needless administrative burden to a great extent.

- The Joint Board recommendations for treatment of rural LECs will move this country toward a land of advanced communications accessibility "have and have-nots" in contravention of the clearly expressed goals of the Telecommunictions Act of 1996. The rural transition plan presented here will not do this, but will in fact help achieve the real goals of the Act.